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Wholesalers focus on improving their margins

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holders, and that in itself is an incentive to come around."

On the chargeback situation, which wholesalers are calling a "major problem and a major issue in 1987," Churchman is also reasonably optimistic that some progress can be made.

"The NWDA has just published a White Paper on chargebacks," he points out, "and this is an important step to setting some standards for the industry.

"A White Paper can't make anybody do anything, but it does suggest some solutions to the problems, and it does help get the attention of all parties.

"The ideal solution for wholesalers would be for manufacturers to advance us the money we are expected to tie up in chargebacks. Some manufacturers are doing that now.

"If all manufacturers would agree to that, then you'd eliminate the problem of the industry being out $200 million at any given point in time in a single year."

McKesson's Joe Polastri is also guardedly optimistic. "We'll see some settling in during 1987," he says. "The situation won't get worse, but it may or may not improve."

Polastri believes that the margin pressure from the independent retail buying groups "is pretty much in place." He said that margin erosion from this direction "won't get worse" and "might improve," especially if the groups start to realize what Polastri says is "the need to think about more than price, and to realize the importance of value-added services like merchandising and promotional support."

At Amfac, President Mel Whitmire thinks both 1987 and 1988 will be better years.

Drug wholesalers: five year sales growth
(billions)

	1982	1983	1984	1985	1986	1987 (Est.)
Dollar sales	$10.20	$11.90	$12.52	$14.32	$16.8	$19.4
% chng. vs. prior year (current dollars)	18.60%	16.70%	12.80%	14.80%	$18.5	16%
% change adjusted for product price changes/inflation	n.a.	9.72%	4.84%	8.65%	12.6%	n.a

Source: NWDA 1986 operating Survey and Drug Store News 1987 estimates

Drug wholesaler industry profitability drops sharply in 1986*

Indicators	1982	1983	1984	1985	1986
Return on net worth	18.10%	16.50%	16.40%	13.10%	9.70%
Return on total assets	7.66	7.17	7.30	6.05	4.46
Net profit	1.95	1.75	1.78	1.47	1.13
Total asset turnover	3.94	4.11	4.13	3.88	3.88
Gross profit margins	11.00	10.16	9.74	8.86	8.19

*FIFO results
Source: NWDA 1986 Operating Survey

"Just because you are not going to see any big changes in the reduction of operating expenses," says Whitmire, 'I think many companies will realize that the way to improve profits will be to raise margins.

"The concentration now will be on shifting to profits to generate new growth. The emphasis now will be on taking what you have and making it more profitable."

"Without question, wholesalers now are going to be concentrating on improving their margins," says Bergen's Phil Engle.

No big surprises

However, at Humiston, Burt Olin says he isn't expecting "any big surprises this year.

"The regionals are going to have to continue to figure out better ways to streamline their operations," he says. "They'll be looking for bodies: less people, less fat.

"The big guys like McKesson, Bergen, Fox, etc., will continue to consolidate their operations, and they'll also continue to diversify. By selling to an ever-broadening base of customers and by continuing to expand their product mix, they should be able to increase their margins without adding too much to operating costs."

At FoxMeyer, Tauscher thinks it may be very hard for most of the regionals and smaller wholesalers to continue to reduce their operating costs because he believes that the majority of wholesalers have reached "the end of the rope" in this respect. "It will take a ton of hard work to make most of us more productive," he says.

However, he also thinks the bigger companies like FoxMeyer, Alco, Bergen and McKesson that are still digesting acquisitions could perhaps streamline operations by another 20 to 25 percent of sales.

"At FoxMeyer, we think we can improve our data-processing expenses as a percent of sales. We think we can still make progress in networking our deliveries. We may be able to further reduce our warehouse operating costs as a percent of sales."

The bottom line, then, is that 1987 may be a better year than 1986 if the majority of companies can manage to achieve further economies, if the chargeback situation can be improved, if competitive instincts can be tamed, if wholesalers start to concentrate more on profitability and investment returns over market share gains, and if inventory turns can be increased.

Only time will tell, however, how fast the industry can succeed in realizing all those objectives.

Wholesaler distribution centers

Company	Number of distribution centers 1986	Number of distribution centers 1987	Sales per d.c. (millions)
Louis Zahn	1	1	$206.0
Twin City	1	1	171.0
Drug Guild	1	1	170.0
Fox Meyer	12	13	150.0
North Carolina	1	1	125.0
Harris	9	8	125.0
F. Dohmen Co.	1	1	114.0
Bindley Western	6	9	111.0
J.E. Gould	1	1	102.0
Cardinal	5	5	100.0
McKesson	54	49	98.0
Solomon Drug	1	1	95.0
Humiston Keeling	4	4	90.0
Remo Drug	1	1	85.0
Ketchum	4	4	82.0
Northwestern (Minn.)	1	1	72.0
Dik Drug	2	1	70.0
Bergen	48	40	68.0
Alco	26	27	63.0
Durr Fillauer	5	5	62.5
Walsh-Lumpkin	1	1	55.0
Value Drug	1	1	54.0
Dr. T.C. Smith	2	2	46.0
Owens & Minor	4	5	42.0
Kendall	1	1	40.0
General Drug Co.	1	1	33.0
C.D. Smith	1	1	25.0
Amfac	36	36	19.0
Esforge Drug	2	2	16.0
Miami-Luken	4	4	15.0

Source: Drug Store News/NWDA 1987 Wholesaler Survey

Drug wholesalers: Status of voluntary/co-op programs

Company	Voluntary	Number of members
McKesson	Valu-Rite	2600
Alco	Family Independent Pharmacies	1100
Durr Fillauer	Price Guard	1100
Bergen Brunswig	Good Neighbor	600
Drug Guild	Drug Guild +	416
Fox Meyer + +	Health Mart	400
Humiston-Keeling	Service Pharmacy	400
Ketchum	PIP	350
Harris	Super Service	342
Cardinal	Leader Drug	300
Dik Drug	Centsible Drug	135
General Drug Co.	Healthway	100
Louis Zahn	Family Drug Centers	84

+ Drug Guild is a co-op program.
+ + Health Mart is a franchised program.
Source: Drug Store News/NWDA 1987 Wholesaler Survey

TRENDS

Wholesaler Annual Report

Wholesalers adapt to change in innovative ways

The drug wholesaling industry is looking for improved profitability in a number of inventive ways.

Many of the major companies with annual sales of half a billion to a billion plus are diversifying both their customer base and their product mix in an attempt to generate incremental sales and earnings.

At the same time, both larger and smaller companies are continuing to look for innovative ways to streamline operating costs and reduce expenses.

And many of the smaller and mid-size regionals are now concentrating on filling a specialized market niche rather than trying to be "all things to all people."

One of the strongest trends this year, at least among the larger companies, is the thrust to diversification.

Companies like McKesson, Bergen Brunswig, FoxMeyer, Harris, Alco and Cardinal are all developing business ventures that are meant to service an ever broadening customer base with an ever expanding mix of products.

At the same time, nearly every drug wholesaler in the industry is trying to achieve additional operating efficiencies through consolidation, automation, and enhancements in warehouse design and layouts.

There is also an emerging new emphasis on running one's business "profitably" and of eschewing opportunities to achieve market share gains at the expense of gross margin erosion.

Following is a brief summary of how the highest volume wholesalers are adapting to change in 1987.

Major wholesalers' sales growth strategies vary

McKesson Drug

At McKesson, which is the industry's highest volume and most diversified drug wholesaler, Drug Wholesale Division President Joe Polastri says the company is pretty much "set" in the development of its service merchandise distribution business.

McKesson has acquired three mass market service merchandisers over the course of the past several years, and has now established that division as a national distributor of sundries, H&BA and GM to a wide variety of customers including food, mass merchandise and variety stores, as well as many of McKesson's traditional drug store customers.

Polastri points out that one of the benefits of the service merchandise division is that margins are much better than they are in the traditional drug wholesaling business.

"By being in the service merchandise business," he also says, "we're in a position to sell our traditional drug store customer better gross margin items, and it also helps us widen the pathway to a whole new customer base for us: the food store and mass merchandise store customers."

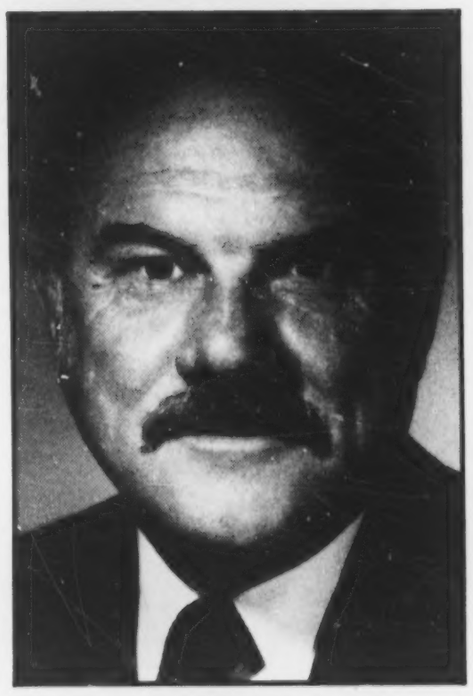
Consolidating position

McKesson is also consolidating its sales and profit position with its relatively new base of hospital customers. The growth in McKesson sales to hospitals has slowed somewhat in 1987, averaging now about 20% a year compared to 40% and 50% about two years ago.

However, McKesson has now succeeded in getting many of its hospital accounts to commit to McKesson as their "prime vendor."

This means that McKesson can now turn its hospital inventories much faster than they could if they were a secondary supplier; plus, McKesson is in a position to provide additional value-added services which would ultimately increase the profitability of its overall hospital business.

McKesson's Home Health Care Division is also growing, but slower than what Polastri would like because of the average retailer's confusion and apprehension over a thicket of government restrictions on the sale and leasing of home



Joe Polastri
President,
Drug Wholesale Division,
McKesson Drug

health care products.

McKesson's home health care business, Polastri said, is growing "gradually" with drug store retailers, but faster with the retailer who sells durable medical equipment like hospital beds and oxygen machines.

Polastri says McKesson's medical-surgical supply business and its veterinary supply businesses are both "growing well," and both are providing McKesson with access to a whole new "opportunistic" customer base.

McKesson does include its medical-surgical sales in its total volume for the drug wholesaling division, but the veterinary supply sales are not counted as drug wholesaling sales.

McKesson's Valu-Rite voluntary program is also growing. Polastri says McKesson has signed on some 1,600 new members just in the past 18 months.

Bergen Brunswig

Bergen Brunswig is also continuing to expand both its customer mix and its base of products and services.

Bergen's recent joint venture with two service merchandise distributors, Sav-A-Stop and J & S Distributors, has been terminated, but Bergen is continuing to expand its own independently operated service merchandise company, Impact, in Arizona.

President Phil Engle says that Impact's growth in the past three years has been strong, and that Impact has been making substantial contributions to Bergen's bottom line.

Currently, Impact, which is run as a separate division within the Bergen Drug Wholesaling Group, is primarily supplying food and mass merchandise stores with GM and H&BA items.

However, down the line Impact may emerge as a service merchandise division with the potential to distribute general merchandise and sundries to Bergen's traditional independent drug store customers.

"We thought last year that the joint venture was the best way to accomplish that objective," says Engle, "because we had learned how hard it was for a traditional drug store wholesaler like ourselves to handle GM and sundry items.

"However the business is so hard that even Sav-A-Stop and J & S couldn't survive, and so we had to dissolve the joint venture.

Arrangement made

"Now we have put the fastest turning GM/sundry items like batteries and low-end cosmetics back into our own drug warehouses, and we've arranged with local general merchandiser suppliers to service the rest of our drug store customers.

"But Impact may be a way for us ultimately to get back into that GM business. For now, though, it primarily gives us access to a new customer base, the food stores and mass merchandisers, who are buying H&BA and the more traditional drug store GM items."

Bergen is also continuing to generate strong growth with both hospital and HMO customers. Hospitals now account for about 35% of Bergen's total business, Engle says, and sales to this customer base are now growing at about 12% to 14% a year.

Sales to HMOs are growing at a slightly faster rate, and Engle says he thinks the HMO business will be an important area of growth for drug wholesalers for several more years to come.

Product mix

In the area of product mix, Bergen is generating continued growth from its sales of pharmacy computers and software programs to independent and small chain retailers.

Bergen has just introduced a new generation computer hardware/software system called OmniPhase, which gives independents and small chains a cost effective program for integrating their in-store pharmacy computers with their cash registers.

Bergen has also just introduced a new private label line called Brite Life. There are approximately 300 sku's in the line including vitamins, H&BA and wets and dries.

Bergen has traditionally provided private label products to its retail customers who are members of Bergen's Good Neighbor voluntary, but this is its first private label line for customers who are not Good Neighbor members.

Program is growing

Good Neighbor itself is growing. Bergen now has about 600 members in Good Neighbor, about 200 more members than last year.

"Voluntaries are turning into a growth area for the industry," Engle says. "Most stores in a voluntary program simply do better than independents as a whole.

"They carry a broader range of products, have better advertising programs and do a higher per store sales average.

"Don't forget that when you have 600 stores, you have all the clout of a chain and all the advantages of an independent."

FoxMeyer

FoxMeyer's diversification strategy is so broad that the company could one day rival McKesson as a multi-faceted conglomerate. Traditional drug wholesaling, at some future point, could possibly dwindle to 25% or even less of FoxMeyer's total annual sales.

FoxMeyer's other sales would come from its newly-emerging franchised retail division and from its emerging presence as a supplier of general merchandise lines.

Bill Tauscher, FoxMeyer's chairman and ceo, thinks that eventually sales from its franchised retail division could account for 40% to 50% of total business, while general merchandise sales from the growing Ben Franklin distribution division could easily reach 25% of FoxMeyer's total business in some two to three years.

FoxMeyer is currently using the distribution end of the

Bill Tauscher
Chairman/ceo,
FoxMeyer

Ben Franklin business to supply its traditional and new customers with GM and sundry products. The 1,300 existing Ben Franklin stores, however, are still the prime customers for the Franklin distribution division.

Adding stores

FoxMeyer, however, is also franchising the Ben Franklin retail program. So far another 49 stores were added last year, and Tauscher expects to add another 75 this year.

FoxMeyer is also the only drug wholesaler to franchise a retail drug store program, Health Mart, and the company is about to launch its third retail franchise, a craft store operation that is so far unnamed.

To a certain extent, FoxMeyer is already in the craft business, since a typical Ben Franklin store generates about 25% of its sales from craft products.

FoxMeyer plans to open its first, and probably only, company-operated craft store in Atlanta this fall, and to use its Ben Franklin distribution system to support it.

Hopes to open 35-50

In 1988, Tauscher says FoxMeyer hopes to open between 35 to 50 franchised craft stores.

Down the line, Ben Franklin may also evolve into FoxMeyer's general merchandise division. At peak seasonal times, the division already stocks some 50,000 GM/sundry sku's, and Tauscher can see the day coming when Franklin can act as a general merchandise supplier

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FoxMeyer

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to all of FoxMeyer's retail customers including their traditional drug stores as well as its older food, variety and mass merchandise store customers.

Franklin will also be the main source of supply for all front end products sent into FoxMeyer's three franchised operations: Health Mart, Ben Franklin stores and the new craft stores.

Today, most drug wholesalers don't even get 1% of their business from GM lines, but FoxMeyer is already generating about 15% of its overall business from Franklin's GM lines, Tauscher says.

"We didn't even have a presence in that market until we acquired Ben Franklin in 1986," Tauscher adds.

The Health Mart franchise is now up to 400 stores, an increase of about 10% over this same time last year. Since an average investment in a Health Mart franchise is about $25,000, Tauscher considers the 10% increase a good rate of growth.

"We're very happy with Health Mart," he says, "both with the increase in sales and profits."

Tauscher also points out that wholesale sales to the Health Mart franchisees accounts for about 10% of FoxMeyer's total drug wholesaling business, "and that's with 400 Health Mart customers," he says, "and 7,000 total customers."

Tauscher says his hospital supply business has not been growing as fast in prior years, but he says that's primarily because most hospitals have already made the shift from direct manufacturer purchases to a prime vendor wholesaler program so there is less opportunity to achieve dramatic increments in sales.

However, Tauscher is quite satisfied with the hospital supply end of FoxMeyer's business, and he says total sales from that division will reach about $100 million this year.

Tauscher also says that although the home health care business is "complicated," it is also growing for FoxMeyer. To date, there are about 900 retailers at FoxMeyer on that program.

FoxMeyer has also taken an aggressive role in trying to help its independent retail customers acquire HMO business.

This past year, FoxMeyer formed its first PPO in Denver and its second in Chicago. Currently, Tauscher says FoxMeyer is processing over half a million PPO claims a month for its retail customers. There are about 200 independents and small chains in the Denver PPO, and the Chicago PPO is still signing on retail members.

"This is a key growth area for us," Tauscher says. "We've got to make it easier for our customers to get the HMO business, so we bid on the HMOs and we process the claims."

Tauscher also supports the independent retail buying groups which try to form PPOs. The retail buying groups, he says, did a great job getting competitive bids from generic companies.

"They accomplished what we as wholesalers should have been doing all along," Tauscher says, "but now they have solved that problem and most wholesalers have good competitive prices on a variety of quality generic lines.

Help form PPOs

"Now the most productive direction for the retail buying groups is in helping their members form PPOs so they can compete with chains for the HMO business."

This year, FoxMeyer toned down its acquisition activity, picking up only one regional house from Harris Wholesalers, the Narco Drug Company in St. Louis.

Tauscher points out that there are obvious reasons for the cutback in acquisition activity. The major companies like FoxMeyer, McKesson, Bergen and Cardinal, which have been the most active in picking up regionals, have had to slow down to digest what's been acquired. Tauscher points out further that there are only about 10 major regionals left that would really give the acquiring company strong market share gains.

Also, the prices being offered to acquisition candidates are not as attractive as they were one and two years ago, so there is less willingness on the part of the smaller independents to sell out to the bigger companies.

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Alco

Part of Alco's strategy to maximize economies of scale, however, is to continue to look aggressively for additional acquisitions, primarily acquisitions of other traditional drug wholesalers.

In late 1986, Alco picked up three regional companies, Michiana Merchandising Systems, in Mishawaka, Ind; Archer Drug in Little Rock, and Mississippi Drug in Jackson, Miss. So far, the company has not acquired anything in 1987, but Joe Churchman, chairman and ceo, says Alco is "continuing to talk," although there probably won't be anything that will be announced soon.

Alco, like many other drug wholesalers, has diversified into the home health care business, and Churchman says that growth in this product area so far "has been living up to its potential."

Testing program

Alco is currently testing a home health care program for mass merchandise chains. The test has been going on for a while, Churchman says, in a "handful of stores" operated by a major mass merchandise chain.

Churchman says it is too early to talk about the results of the test, except that Alco is trying to simplify the operations end of the business for its customers, including the mass merchandiser chains, by "handling all the problems and all

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Alco

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the paperwork ourselves.

"The retailer just signs the customer," he says. "Our people take it over from there and we have experts who handle all the paperwork."

Among its drug store customers, Churchman says Alco now has about 350 to 400 stores with either home health care departments within the store or in a separate store close to or adjacent to the main drug store.

Studying the option

Churchman says Alco is also "studying" the option of expanding into the service merchandiser business as McKesson and FoxMeyer have so far successfully managed to do.

Alco does have a division called Shawnee-Evans that buys and distributes promotional merchandise for its retail customers, and an expansion of mass and service merchandise lines could come from that operation, but it is more likely that it would come from acquisitions of existing businesses.

Alco also says its base of hospital and HMO customers is continuing to grow, and for the first time, Alco has also begun forming PPOs as a service to its retail customers.

Churchman says Alco so far has formed PPOs, as FoxMeyer has done, in several states.

"Our basic job," he says, "is to help the retailer, and if there's a way of bringing retailers and customers like HMOs together, then that's a responsibility we have."

Dollar sales growth trends

(Customer segments with the strongest and weakest sales growth trends)

SALES TO	Dollar sales for past two years			Dollar sales projections for next two years		
	Increase	Decrease	Stay Same/ No Opinion	Increase	Decrease	Stay Same/ No Opinion
Independents	79%	—	21%	100%	—	—
Chain drug stores	64	21%	14	64	—	36%
Chain warehouses	36	—	64	29	7%	65
Mass merchandisers	21	—	79	29	—	71
Food/grocery/ combo store chains	29	—	71	36	—	64
Clinics/HMO's	29	7	65	57	—	43
Nursing home suppliers	21	7	65	29	—	71
Nursing homes direct	7	7	86	29	—	71
Physicians/ corp. with own formularies	14	—	86	—	7	93
Mail order houses	—	—	100	—	—	100
Hospitals	57	29	14	43	29	28
Home health care operators	36	—	64	29	7	65
Independent retail buying groups	21	7	72	43	7	50

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

Bindley Western

Back in December 1986, Bindley Western acquired Stamford Superior Drug in Stamford, Conn.

At that time, Stamford had two operations that were new to the Bindley system: a private label generic distribution company, Glenlawn, and a catalog health and beauty aid business called Special Services.

In the last nine months, Bindley has been busy expanding both the businesses.

Bill Bindley, the chairman and ceo, said "The generic company is now giving us an opportunity to serve our customers better, plus the line gives us higher margins."

With about 1,200 controlled label sku's in the generic line, Bindley's customers can now use their wholesaler as a one-source supplier for all their generic needs.

Bindley also has a product liability guarantee for their customers which is in addition to the manufacturer's product liability guarantee. "With the line," says Bindley, "we're able to guarantee the chains that are our customers a quality product that is consistently the same, and yet conveniently available from a one-source supplier.

"When they get a generic line from us, they know that the color of the pills, the shape and the label will always be the same."

The catalog business, Bindley also points out, "helps us capture additional health and beauty aid business with variety and discount stores as well as with stores that specialize primarily in H&BA."

Specials are in catalog

Retail stores which subscribe to the Special Services catalog receive a promotional circular every three months. All the specials are in the catalog, and a retailer can order 11 cases of one item and get the twelfth case free.

Bindley also says this business, which captures a new customer base, is also a higher margin business than the traditional drug wholesale operation.

Bindley says his business with HMOs who run their own pharmacies has also been growing. The growth is not as dramatic as the increase in hospital business because there is a smaller base of HMOs and bidding contracts come up less often. However, the business is more profitable than hospital business, and servicing that business doesn't involve any dramatic change in Bindley's everyday operating procedures.

Bill Bindley
Chairman/ceo,
Bindley Western

Harris Drug

Harris Wholesalers is continuing to increase its base of voluntary members and is now up to about 340 Super Service members.

This year, Harris introduced a new private label H&BA/vitamin line for its voluntary members, Harbest.

Harris is also continuing to look for specialized niches it can fill in its market. Harris also has a service merchandise division called Harris General Merchandise, and that division is a member of the National Service Merchandisers Association.

Sales growing 25-30%

Harris GM has been in the business for about six years, and President Seth Harris says sales have been growing at the rate of about 25-30% a year. The division, which is run separately from Harris's traditional drug wholesaling operation, primarily sells H&BA and GM to food and mass merchandise stores.

Home health care sales are also growing at Harris at the rate of about 22% to 25% this year. In 1987, Harris opened two new markets for home health care sales: New England and Atlanta. Sales are both to Harris's traditional retail drug store customer as well as to new customers like home health care store operators.

In Harris's two-year-old Medical-Surgical Supply Division, Harris reports "moderate growth." He says margins have also "dropped off" in this business because of cost-cutting programs in the hospital industry.

This year, Harris began adding candy to the mix in its Cleveland distribution center.

"It's a different business, but the turns are high. We've been in it for four months," says Harris, "and we're trying to determine what our return might be."

Amfac

Amfac, which generates more than 90% of its sales in pharmaceuticals, is still concentrating on expanding its basic product mix to new customers.

President Mel Whitmire says that in 1987, Amfac continued to experience strong growth in its hospital business. Hospitals now account for about 28% of Amfac's total sales compared to 22% last year and 11% in 1985.

"We still outpace the industry in growth in that market," says Whitmire, "but even for us, the growth is starting to top off a bit because many of the hospitals today are on prime vendor programs."

Whitmire says HMOs with pharmacies are becoming a growth area for the industry as well as for Amfac, but the growth is not as dramatic as it was for hospital business. He says this is because there is a smaller base of HMOs with pharmacies in the country, and because they only put their business out for bid every two or three years so there is a longer wait for wholesalers to be eligible to compete for the business.

No commitments yet

Home health care currently accounts for less than 1% of all Amfac sales. Whitmire is testing a more expanded program, but has not made any commitments yet.

"There's a space problem for us," he says, "because our distribution centers at 15,000 square feet are small."

Cardinal Health Group

In 1987, Cardinal's Health Service Division has been concentrating on increasing its share of hospital business for both pharmaceutical and medical surgical supplies.

The company is also the only wholesaler to use the same sales force to sell both pharmaceuticals and medical/surgical supplies to its hospital customers.

President Mike Quinn also says that Cardinal is emphasizing its service programs as well as its pricing to hospital companies.

Daily service

"As part of our service," says Quinn, "we're delivering pharmaceuticals to the hospitals once a day, so it's also just as convenient for us to deliver medical-surgical supplies once a day." Quinn says that most suppliers of medical-surgical products only deliver to hospitals every three days.

Cardinal's voluntary program is also growing dramatically. There are over 250 stores in the program now, more than twice as many as last year, and Quinn says new members are enrolling at the rate of 25 a month.

Cardinal is also aggressively seeking expanded business with HMOs, nursing homes and home health care operators.

Mike Quinn
President,
Cardinal Health Group

Wholesalers disclose operational efficiencies

In the area of cost containment, and gross margin enhancement, the major drug wholesalers are doing the following things:

McKesson

McKesson, which acquired three major regional drug wholesaling companies in 1985, has not bought any new companies recently. The emphasis has been on digesting and consolidating the companies already acquired.

McKesson closed another of its smaller 15,000-square-foot distribution centers last year, and now has a total of 49 distribution centers in operation. An average McKesson DC generates about $98 million a year in sales.

McKesson also just opened its second multi-combination DC in Memphis. Like the Honolulu combination warehouse which opened in 1985, the Memphis warehouse shelters several McKesson divisions under its one roof.

In this case, McKesson is distributing its traditional drug store products, its veterinary supplies, office products and Valu-Rite promotional merchandise, all from under one roof.

Another combination warehouse is slated to open shortly in Texas and Polastri says McKesson will open more combination warehouses "as the opportunity arises."

McKesson has also added more productive cube space to its S-P Drug warehouse in New York, and expanded its Sacramento warehouse by another 85,000 square feet.

McKesson has also gone into what Polastri calls a "beta-test" or an "actual work condition test" of a new technology that the company believes will further help streamline operating costs.

McKesson has spent the past year testing the European-developed technology in the laboratory environment. Polastri says it is still "too soon" to talk about the technology and what it can do, but he says it is a very promising experiment.

Bergen Brunswig

Bergen Brunswig is also investing in a new technology that was developed in Europe and which may be identical to the program McKesson is testing.

In the first quarter of 1988, Bergen plans to open its second automated picking warehouse.

The 210,000-square-foot facility will be located in southern California, and it will feature a new generation of automated picking machines that Bergen Drug Division President Phil Engle says are "much faster" than the Itematic pickers which Bergen installed in its first automated picking warehouse in San Jose.

Engle says the Itematic machines are more efficient than manual picking and have generated cost savings, but he says the new technology is even faster than the Itematics and these new machines do not need to be back-loaded, which is the main drawback to maximizing cost savings with Itematics.

Engle says Bergen will also be able to achieve further economies of scale from the new warehouse by consolidating the operations of at least two or three other DCs into this one new facility.

FoxMeyer

FoxMeyer Chairman and ceo Bill Tauscher thinks the company can take another 20% to 25% off its operating expenses as a percent of sales.

Tauscher says FoxMeyer is in the process of achieving that objective by automating its data processing systems, by networking deliveries from all the various FoxMeyer divisions including traditional drug store merchandise and Ben Franklin-style GM/sundry merchandise, and by continuing to modernize its warehouses.

"It's a matter of a tenth of a point reduction here and there," says Tauscher.

Today, the company is also continuing to consolidate its 18-month-old acquisition of the Ben Franklin franchising and distribution company. To date, all the Ben Franklin trucks have been integrated into FoxMeyer's traditional distribution network.

Consolidated supply

Right now the Ben Franklin division is supplying GM and other sundry products to all of FoxMeyer's franchise customers, and down the line Franklin will supply all of FoxMeyer's retail customers with GM/sundry lines.

FoxMeyer is also preparing to open its first combination warehouse exactly as McKesson has done.

The first combo warehouse is now under construction in Los Angeles. It's a 280,000-square-foot facility that will also house the Ben Franklin GM/sundry product lines as well as FoxMeyer's traditional drug wholesaling product mix. Tauscher says FoxMeyer plans to open its new superwarehouse within a year.

FoxMeyer currently has 13 drug wholesaling warehouses, six hospital supply warehouses and four Ben Franklin warehouses.

Since FoxMeyer has acquired several of the industry's highest-volume single houses like McPike and Lawrence, the average FoxMeyer warehouse does about $175 million a year in sales. The industry average, in comparison, is about $50 million.

FoxMeyer is not using automated pickers in its warehouses because Tauscher does not believe "the productivity is there," but many houses have a laser system, flow racks and automated conveyors.

Alco Health Services

In an effort to decrease operating expenses, Alco Health Services is continuing to upgrade its distribution centers. Several have been modernized so far in 1987, and one DC has now been equipped with an automated picking machine for high velocity pharmaceuticals.

Alco has also begun to consolidate its warehouses, and is studying the feasibility of closing certain smaller DCs in select markets and replacing them with larger houses.

Management is also considering opening more satellite distribution centers that would be strictly for warehousing pharmaceutical goods.

Bindley Western

Bindley Western, which primarily breaks down shipments for its large base of warehousing drug chain customers, is already functioning at peak capacity.

Chairman Bill Bindley says the company has the lowest operating expenses of any drug wholesaler in the industry: about 1% of sales.

"We can operate with reduced margins because we've been able to reduce our labor costs, reduce our picking costs and make our warehouses more efficient," says Bindley.

"Now we're looking for increased economies by developing new sales progams for our larger customers.

Full cases prefered

"The trend for us is to sell full cases rather than single items or two items. It costs less to pick a full case, and it's more efficient for us.

"Even with our inventory expanded to handle more hospital business, we're turning our inventory 40 times a year."

Bindley is also building a 63,000-square-foot facility in Brockton, Mass., and will move into it next month. That will give Bindley a total of 10 distribution centers.

New Orlando facility

A new facility in Orlando is also under construction, and Bindley is putting a 45,000-square-foot addition onto its recently-acquired Stamford DC.

Bindley has also installed a new data system that improves communications between the warehouses, and its new vp of purchasing is also working on a new automated system that will allow Bindley to partially automate replenishment.

The company already has a centralized purchasing system.

Harris Drug

President Seth Harris is also looking for ways to consolidate and relieve his operating expenses.

Harris is working with manufacturers on programs that will increase the amount of paperwork that can be processed electronically, and eventually Harris hopes to be able to automate its receiving functions.

This year, Harris sold its St. Louis division, Narco Drug, to FoxMeyer. The move leaves Harris with eight warehouses in operation.

Continued on page 41

Status of wholesaler services for retailers

(The growth of value added service programs among wholesalers)

SERVICE	Provide	Don't have	Studying	Planning to offer
Point of Purchase aids	73%	13%	7%	7%
Plan-o-grams	87	13	—	—
Ad support programs	100	—	—	—
Co-op ad dollar programs	86	7	7	—
Product price labels	100	—	—	—
Shelf price updates	100	—	—	—
Price updates	100	—	—	—
Store remodeling programs	73	27	—	—
Store fixturing programs	67	33	—	—
Accounting/bookkeeping services	26	60	7	7
Third party claim processing	53	47	—	—
Extended dating on opening inventories	87	13	—	—
Direct loans for expansion/ acquisition, etc.	33	67	—	—
Co-signing loans for retailers	40	60	—	—
Arranging financing	40	53	7	—
Site selection	40	60	—	—
Pharmacy computer software	73	27	—	—
Point-of-sale software	33	53	7	7
Scanning software	27	47	7	19
Pharmacy computer hardware	67	33	—	—
POS scanning/computer hardware	21	53	13	13
Host support for computers	33	67	—	—
Inventory reports	93	—	7	—
Financial/management reports	33	53	7	7
Product movement reports	100	—	—	—
Business insurance	27	73	—	—
Private label programs	33	60	—	7

Source: Drug Store News/NWDA 1987 Wholesaler Survey

Wholesaler Annual Report TRENDS

Continued from page 38

Amfac Health Services

At a time when the industry has been plodding through its worst year ever, sales at Amfac's health care division have been up 31% in the past six months and profits have been up close to 250%.

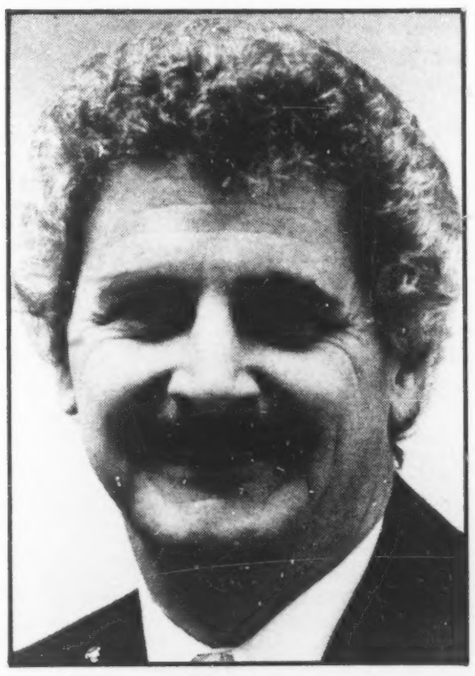
Amfac President Mel Whitmire calls the strong performance "ironic" because he attributes the growth to Amfac's previous delay in modernizing.

"We're maybe five or six years behind the industry as a whole," Whitmire says. "We're realizing economies of scale and cost reductions now because we're streamlining and implementing the cost containment measures that the rest of the industry implemented years earlier."

In 1987, Amfac expanded 11 of its 36 DCs by an average of 6,000 to 8,000 square feet. Until now, the typical Amfac DC has been about 14,000 square feet, and each DC has been averaging about $14 million a year in sales, which is very low.

The bulk of Amfac's sales, about 90%, are still in pharmaceuticals, but Whitmire is studying the possibility of expanding the Amfac product mix "at some future point."

Amfac had experimented with the veterinary supply business as McKesson has done, but Whitmire says the business was not "profitable enough."



Mel Whitmire
President, Amfac

The changing mix of products for today's drug wholesalers

(The % of business the average wholesaler does with each product category)

	% of Wholesalers who are averaging this % of total sales from these segments									
SEGMENT	**0**	**1%-5%**	**6%-10%**	**11%-20%**	**21%-50%**	**51%-60%**	**61%-70%**	**71%-80%**	**81%-90%**	**91%-100%**
Pharmaceuticals	—	—	—	—	—	8%	15%	31%	46%	—
OTC products	—	15%	55%	30%	—	—	—	—	—	—
HBA	—	39	46	15	—	—	—	—	—	—
Sundries	—	70	30	—	—	—	—	—	—	—
Home health care	—	70	30	—	—	—	—	—	—	—
Other	84%	8	8	—	—	—	—	—	—	—

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

Cardinal Health Group

By the end of this year, Cardinal's Health Services Group believes it will have the "most sophisticated, state-of-the-art warehouse facilities in the industry."

President Michael Quinn says Cardinal is nearly finished upgrading and automating each of its five divisional warehouses.

Cardinal has been working on software that Quinn says "will completely automate the buying and reordering process." When Cardinal has the program in place, Quinn says the company will be able to automatically replenish and reorder "every item in the company's inventory."

Cardinal has also reorganized its operations so that each function that an individual DC performs has been standardized from customer service through purchasing.

The divisions have also been linked to each other by computers for the first time, and all these measures Quinn says has improved Cardinal's operating efficiencies "substantially."

Warehouse operating procedures

	% of Distribution centers that use the following systems				
SYSTEM	**None**	**1%-25%**	**26%-50%**	**51%-75%**	**76%-100%**
Night picking	53%	7%	7%	—	33%
Batch picking	47	7	—	7%	39
Automated pickers	93	7	—	—	—
Scan/bar code deliveries in receiving room	93	—	—	—	7
Use computers to set sequence of a pick	7	—	—	40	53
Zone pick	40	—	—	7	53
Pick by product category	33	20	7	—	40
Computerized conveyors	67	—	7	—	26
Use a pc to handle returns	67	—	7	7	19
Use a computer to reorder	33	7	—	—	60

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

% of Wholesalers who offer voluntary programs to their retail customers:

72%

Source: Drug Store News/*NWDA Wholesaler Survey*

The % of vendor bills that wholesalers are paying electronically

	0	1%-10%	11%-20%	Above 21%
% of Wholesalers giving this response	7%	84%	7%	0

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

% of Drug wholesalers who give retailers zone pricing information

SEGMENT	% of Wholesalers who give retailers zone pricing
Pharmaceuticals	40%
Over-the-counter drugs	60
Health & beauty aids	60

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

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Drug stores may be missing the boat with 7 out of 9 popular shampoos

Hair care buyers, want to try your hand at solving a puzzle?

According to a consumer survey initiated by Austin, Texas-based Martin & Martin Information Consultants, there are nine shampoos that are the regular favorites of over 52% of all American households. Of those nine brands, however, only two, Prell and Ivory, are purchased at least 50% of the time in drug stores.

The puzzle, of course, is this: Why are drug store merchandisers doing such a good job getting Prell and Ivory users to buy their brands in drug stores most of the time, and why are they missing the boat with the brand-loyal shoppers of the other favorites?

The H&BA buyers we talked to were surprised at the results of this particular survey. A few thought the drug store industry must be advertising Prell and Ivory more often than the other brands.

But according to Nielsen's Majers Corp., which tracks drug store ad activity, as well as our own tracking of promotional activities, that is not necessarily the case. In recent years, Flex has been one of the most advertised brands in drug stores, and Suave, Jhirmack, Pert Plus and Clairol Condition have gotten their fair share of exposure too.

One buyer said that maybe the Prell and Ivory shoppers were just more representative of drug store shoppers in general. "Maybe they share the same demographics," she suggested, "a little older, a little more skewed to the low to middle income levels."

But that doesn't explain the findings either, because Flex, Suave and Head & Shoulders are not that much more expensive than Ivory or Prell, and the user markets they are targeted to reach is not that different from the target markets for Prell and Ivory, excluding the niche marketing for Head & Shoulders.

One reason for the survey findings may be that drug stores are failing to exploit all the sales opportunities they have with seven out of nine very popular shampoos.

Stores may need to do more endcapping or feature displays with these specific brands, or they might want to consider expanding facings.

Martin & Martin's data found that 24% of all American households buy their shampoo at drug stores at least 50% of the time.

Prell, for example, was picked as the current favorite shampoo brand by 5.8% of all households. And, according to the survey, more than half of all shoppers who name Prell as a favorite shampoo say they purchase their Prell most often at a drug store.

Drug stores also capture the bulk of purchases for Ivory and Pert Plus.

In comparison, users who named Nexxus, which is primarily a salon-distributed brand, as their favorite shampoo, were much less likely to buy it in a drug store. However, even in the case of a brand that has relatively limited distribution in drug stores, some 14% of all users said they do buy this brand in a drug store about 50% of the time.

We do seem to have a puzzle on our hands here, but it's also pretty clear that drug stores are losing purchases to other mass merchandise outlets like food and discount stores.

Hair care merchandisers should consider re-analyzing their hair care planograms and ad strategies. If there is a potential here for increased sales, then, of course, it should be identified and exploited.

How brand-loyal shampoo users shop drug stores

Brand	% of Consumers naming as "favorite brand"	% of brand users who buy their brand in drug stores at least 50% of the time
Head & Shoulders	9.7%	17.0%
Nexxus	7.4	14.2
Clairol Condition	6.6	28.0
Prell	5.8	56.9
Revlon Flex	5.8	14.0
Ivory	5.2	45.5
Pert Plus	4.0	28.8
Suave	3.8	21.0
Jhirmack	3.5	14.3

Source: Martin & Martin Information Consultants, Austin, Texas

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3) All winners will be selected in a random drawing from among all entries received on or about December 8, 1987, by the D.L. Blair Corporation, an independent judging organization whose decisions are final.
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Sales trends in home medical test kits						
Segment	'86 Sales (retail $) (millions)	% Chng.	'87 Sales (retail $) (millions)	% Chng.	'88 Sales (retail $)	% Chng.
Home pregnancy test kits	$ 43	16	$ 49	14	$55	12
Home blood pressure test kits	176	18	211	20	252	19
Home fecal occult blood test kits	39	18	46	18	52	13

Source: Packaged Facts, New York

Researcher: Self-reliance items rate special marketing attention

What's the best way for drug store retailers to take advantage of the current trend toward self-reliance and self-enhancement?

Ed Weiss, vp of Packaged Facts, a marketing research company, recommends that retailers merchandise their stores to call attention to products that can either enhance the consumer's health and well being or help prevent or stall the onset of specific diseases or the aging process itself.

Weiss is particularly enthusiastic about the merchandising and marketing opportunities presented by the current expansion of the home medical testing market.

A recent study done by Packaged Facts projects that the market for home medical testing products will exceed $1.4 billion in retail dollars by 1992.

Weiss says the current dollar size of all home medical testing products is about $515 million. "That total segment is going to continue to grow by at least 18% for the next five years," he says. "Partly we're seeing so much dramatic growth because the overall concept of home medical testing meshes so well with the consumer's desire today to be self-sufficient.

"The upwardly mobile baby boomers, in particular, are making a fetish out of such things as staying physically fit, controlling their lives and becoming fully self-reliant."

"In the sixties," he points out, "we began to see people taking an interest in such things as engaging in sports to stay fit, or going outdoors to stay healthy.

"Instead of depending on professionals like doctors to treat a medical problem, people began treating themselves and they began trying to prevent problems from developing in the first place.

Tests' accuracy improved

"Home pregnancy tests," says Weiss, "first came out on the market in the early 60's, but they weren't accurate enough so the market stayed dormant for a while. In the mid-seventies, the tests became much more accurate, and in the years between 1978 and 1980, that market was growing at the rate of 80% to 90% a year."

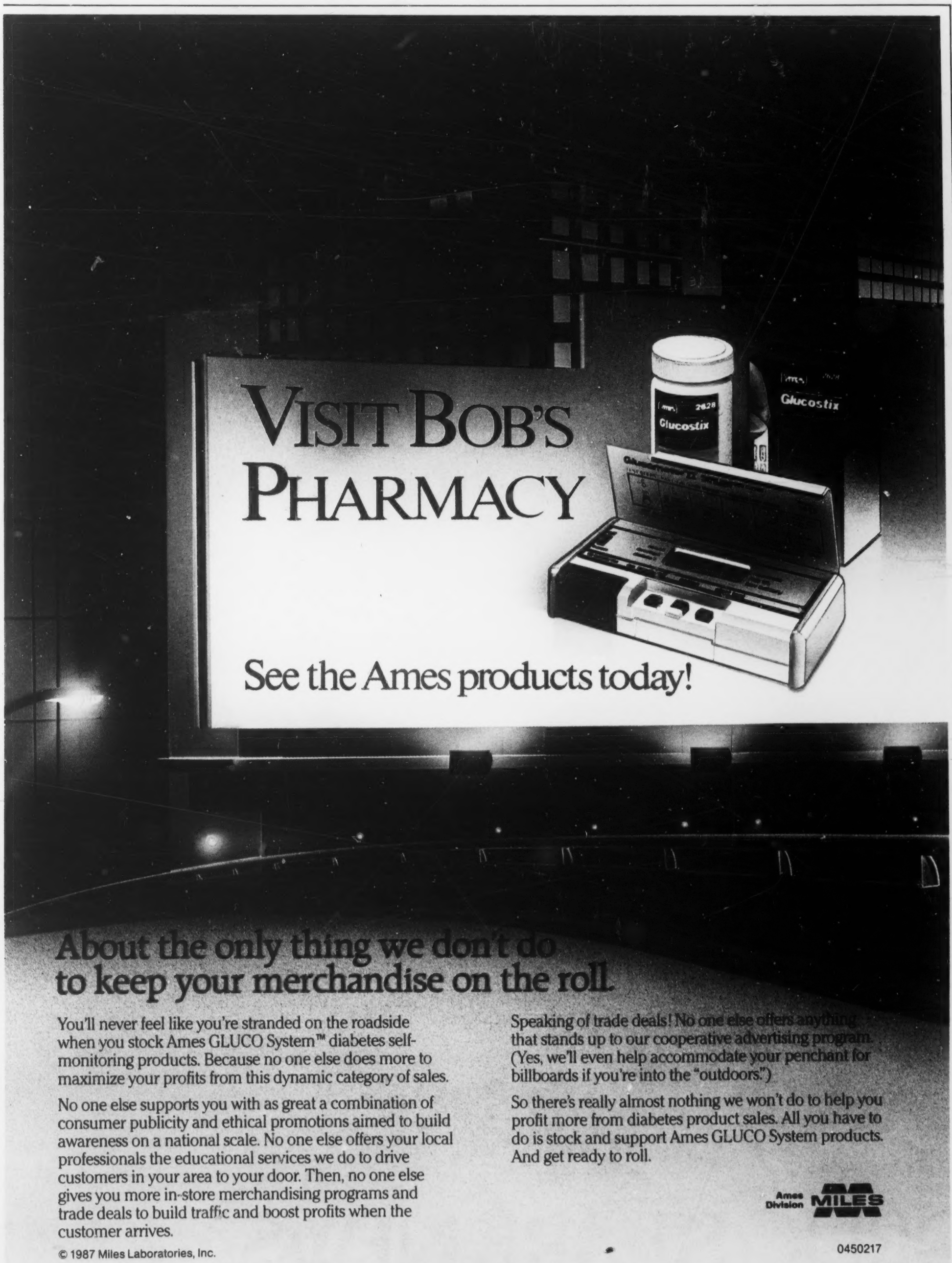
Today Weiss estimates that sales of home pregnancy testing kits are still growing fairly dramatically, up 16% in 1986 to $43 million in retail sales, and projected to increase another 14% to $49 million in 1987 and 12% to 55 million in 1988.

Home blood pressure testing kits will also enjoy steady growth for the next several years. Weiss estimates 1986 retail sales in this category at about $176 million, up 18% over 1985.

In 1987, Packaged Facts is projecting that total retail sales will hit $211 million, up 20%, and in 1988, the company thinks sales will increase 19% to $252 million.

Home fecal occult blood test kits is still another growth area. Weiss says his studies show that kit sales increased 18% to $39 million in 1986, and he is projecting that sales will increase 18% in 1987 to $46 million and 13% in 1988 to $52 million.

There is also the possibility that in the future there may also be a market for tests that can detect sexually transmitted diseases like herpes, gonorrhea and even AIDS. However, because such tests are controversial and need FDA approval before they can be marketed to consumers, Weiss is not making any projections about possible sales growth.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Chains set innovative formats—p. 11

C.E. Lesson:

Second Generation Antidepressants—p.IP25

DRUG STORE NEWS

Vol. 9/No. 19 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. September 28, 1987

Perry Drug in a major realignment

By James Frederick

PONTIAC, Mich.— In a major shift of power, Perry Drug Stores has undertaken a complete realignment of its drug store operations and marketing structure, placing both functions directly under the chain's new president and coo, David Schwartz.

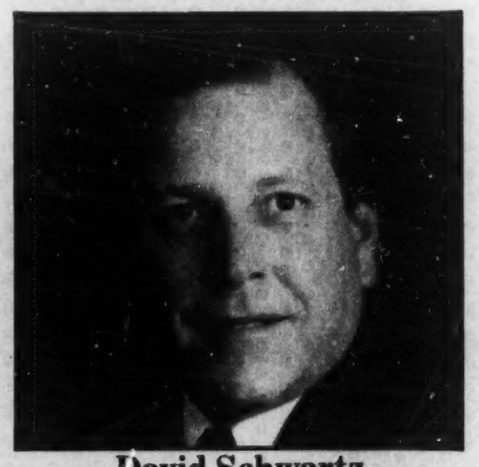
Its main goal, according to Schwartz, "is to create greater agility and flexibility, improve communications and facilitate decision-making so we can respond quickly to an ever-changing market and better serve our customers."

The plan eliminates the position of drug store division president formerly held by Perry veteran Mickey Kole, who has been named a group vice president reporting to Schwartz.

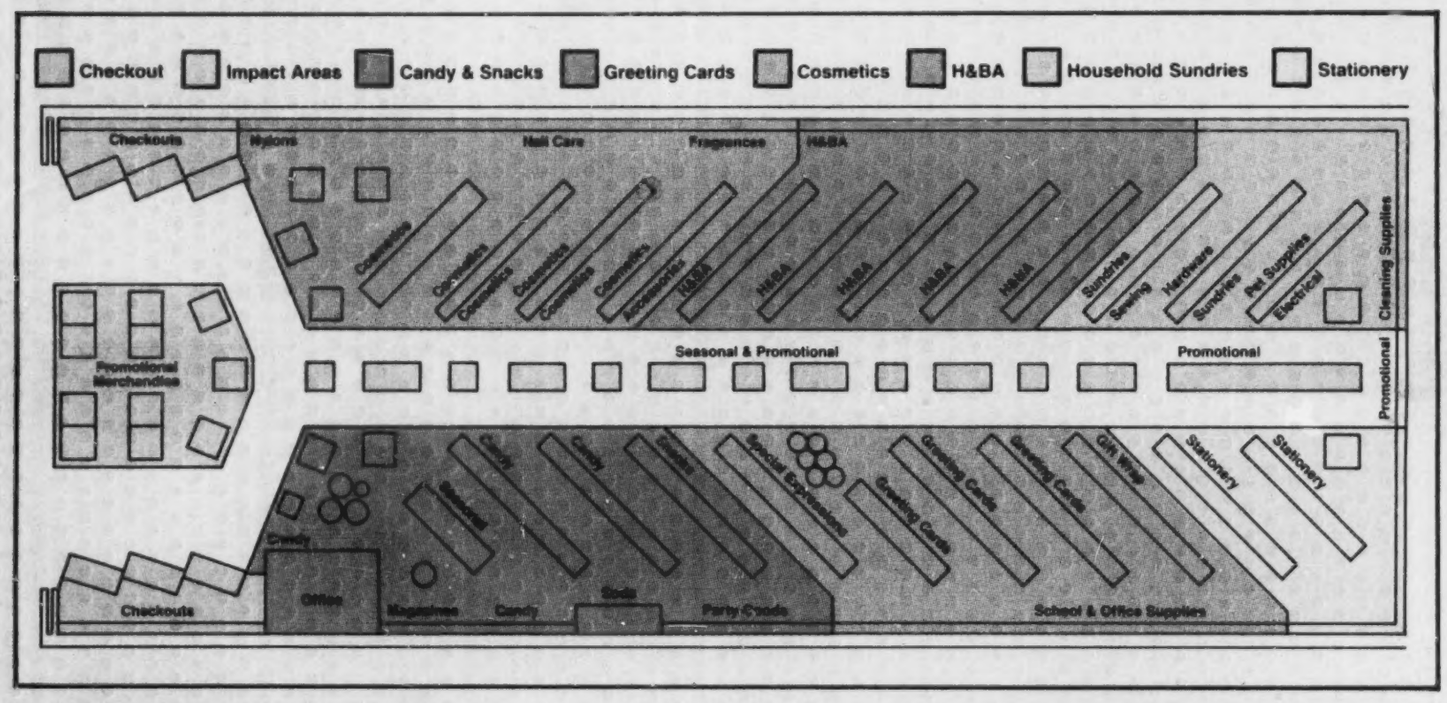
The reorganization divides Perry's 223 drug stores into four groups, with the two largest of about 100 stores now headed by Kole and Samuel Boulton, whose former title was executive vp of store operations for the Pontiac group. Boulton also has been named a group vice president reporting to Schwartz.

Vp Andy Giancamilli will continue to head the 10-store A.L. Price deep-discount

See **Perry,** *page 105*



David Schwartz



Price Rite look may alter face of deep discounting

By Pam Krein

SACRAMENTO, Calif. — When Price Rite Stores opens its first membership wholesale drug facility here in December, it will create a new deep discount drug concept.

Price Rite is patterning its hybrid format after drug deep discounters and 100,000-square-foot membership warehouse clubs--which sell narrow assortments at 8%-10% margins, and achieve profits from high turns and low expenses.

In the first of six 35,000-square-foot units which Price Rite expects to open over 12

See **Price Rite,** *page 105*

K mart and Bruno's join to open giant hypermarket in late 1988

TROY, Mich. — K mart and Bruno's, a Birmingham, Ala.-based supermarket chain, have launched a partnership to develop giant hypermarket stores in the United States.

The proposed stores will feature giant assortments of food, H&BA, general merchandise and specialty items in a format of approximately 225,000 square feet.

The first such store should be open by the fall of 1988, with additional units to follow quickly, according to K mart vp and spokesman A. Robert Stevenson. Although no locations have yet been selected, Stevenson said, the first hypermarket will most likely open in the Southeast, within Bruno's operating area. One

See **K mart/Bruno's,** *page 105*

Woolworth unveils new format

By Dave Vaczek

NEW YORK — F.W. Woolworth will target mall shoppers with broad cosmetic and H&BA assortments in Woolworth Express, a 6,000-square-foot specialty store being launched next month.

The new format will feature high-volume drug store merchandise departments, without pharmacy. Greeting cards, candy, stationery, household sundries, Woolworth's "special expressions" gift lines, and promotional goods will be most prominent within the 5,400-square-feet of selling space, company officers told *Drug Store News*.

Woolworth executives and retail analysts said the company is prepared to back a major

See **Woolworth,** *page 105*

Douglas going public to fund expansion

By Al Heller

NORTH PROVIDENCE, R.I. — Douglas Drug has filed an initial public stock offering with the SEC this month. The chain of 14 upscale super drug stores plans to use proceeds of this offering for expansion and working capital, President John Haronian told *Drug Store News*.

Douglas has built a strong hometown image by combining such broad offerings as books, video rentals, service bakeries and optical centers, with wide aisles, largely carpeted interiors and high service levels.

Douglas stores are positioned as one-stop-shopping destinations that don't need the "help" of other strip center retailers to draw traffic. Most are free-standing.

That has enabled typical 15,000-to-16,000-square-feet Douglas stores to average more than $3 million annual volume and compete against CVS, Brooks and Stop & Shop here. Chainwide sales will top $50 million in the fiscal year ending March 31, 1988.

No operational changes

One company source said the stock sale "would not change the way Douglas operates." He was referring to the constant communication between stores and headquarters, up to chain founder Haronian, which enables Douglas to be highly responsive to market needs.

Through underwriter Providence Securities, Douglas intends to sell 30% stock owner-

See **Douglas,** *page 105*

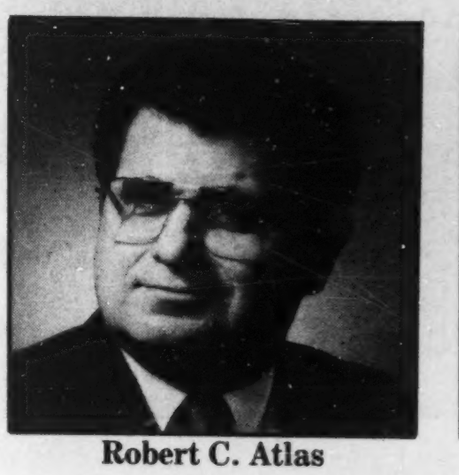
LATE NEWS

- PITTSFIELD, Mass.—Maxidrug, the U.S. deep discounter offshoot of the Canadian Jean Coutu Group, has postponed the opening here of its third store until October because of construction delays, according to Michel Coutu, head of Jean Coutu Group's U.S. subsidiary.
- NEW YORK—Rx Place, the deep-discount drug division of F.W. Woolworth, plans to open four new 27,000- to 28,000-square-foot stores in three Eastern states this fall, raising the chain's count to seven.
- DEERFIELD, Ill.—Baxter Health Care Corp. (formerly Baxter Travenol Laboratories) has broadened its top executive team, naming former executive vp and coo Wilbur Gantz president and eliminating his old position.

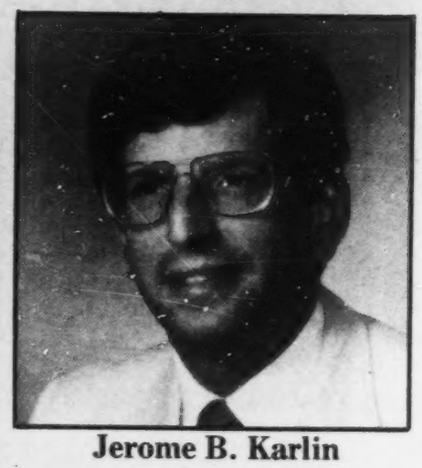
Tune in for Rx

What will consumers' reception be to TV hawkers selling drugs along with garden tools? Will pharmacists face viable competition from the tube? *Drug Store News* tunes in to plans by Home Shopping Network and Cable Value Network to jump onto the healthcare bandwagon. See page **IP17**

NEWS IN BRIEF



Robert C. Atlas



Jerome B. Karlin

Walgreen fills new corporate vp slots

DEERFIELD, Ill.—Walgreen Co. has announced several promotions following the restructuring of its drug store division.

Robert C. Atlas and Jerome B. Karlin will fill the newly-created positions of corporate vice president-drug store operations. The chain now groups its drug stores into eight regions, with four regional vice presidents reporting to each new corporate vice president.

David W. Bernauer has been named vice president for the Western Region, reporting to Karlin. Robert S. Arenson will assume Bernauer's former position of California/West district manager.

In other appointments, Walgreen has tapped Arthur H. Anagnostu for district manager of 15 stores in Florida's newly-formed Palm Beach North district, while Frank M. Noto will be responsible for Palm Beach South district. Jorge G. Morales has been promoted to Miami South district manager.

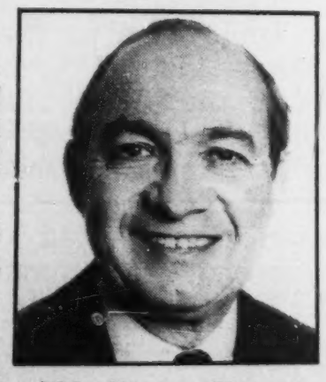
P. Jud Romans and Laszlo S. Pavel have been named district managers of the newly-created Memphis West and Cincinnati West districts, respectively. Donald A. Olson will continue as district manager for Cincinnati East.

Revco names two divisional mm's

TWINSBURG, Ohio — Revco has appointed Lee Rudibaugh and Valeria Stansfield as divisional merchandise managers. Rudibaugh, who assumed the job earlier this year, is responsible for purchasing OTC and H&BA, and Stansfield will buy candy, tobacco, household chemicals and paper products, it was announced by John Crowley, Revco's senior vp-marketing.

Rudibaugh joined Revco in 1986 as senior merchandise director of candy, tobacco, household chemicals and paper products.

Grass to get Torch of Liberty award



NEW YORK—Alex Grass, chairman and president of Rite Aid, will receive the Torch of Liberty Award from the Anti-Defamation League of B'nai B'rith, Drugs and Toiletries Division.

The award will be presented at the Hilton Hotel here Dec. 3 at a dinner-dance in his honor. The division last made the award in 1983, when it was presented to Harlan Steinbaum, chairman and president of Medicare-Glaser.

The award recognizes "a lifetime of leadership in fighting for equal rights in business and community affairs."

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Vol. 9, No. 19 September 28, 1987

Thrift upgrades its front-end, pharmacy systems chainwide

PITTSBURGH — Thrift Drug is making a major push in in-store computer systems this year.

The 400-store chain is replacing its 12-year old pharmacy computers with Convergent Technologies' NGEN, and is rolling out new POS registers after a successful 1986/1987 trial in ten stores

The chain began installing the NGENs with new pharmacy software in July, and will have the system in all stores by the end of October, according to Dan Krause, vp-data processing.

Since the NGEN has hard disk storage and greater processing power, it will support a variety of functions unavailable from the current system. The pharmacy system will use only 20% to 25% of NGEN's capacity, giving Thrift the opportunity to add functions.

New capabilities with NGEN include:

- improved editing functions, that will make third-party billing and pricing easier.
- PC spread sheet application.
- electronic mail for home office-to-store messaging.

Krause said store configurations will include single or twin CRT's, with label printers, and additional CRT's or printers can be added in special circumstances, such as in stores servicing nursing homes.

The JC Penney subsidiary is also installing NCR 2154's, with scanning, in up to 38 more stores this year. The installations and rollout will continue until a POS system is installed in all stores.

"We are committed to POS, but we will move prudently," said Ralph Proger, manager of Stores Coordination. A typical store will have four 2154 registers connected to a PC-6 that contains the price look-up file, collects sales transaction data, and communicates with the central office.

Proger said the POS system should pay for itself by allowing more accurate pricing, inventory control, tracking of sales patterns, shrinkage control, and by providing gross margin information.

Store managers have already said the time spent in end-of-day cash balancing has been cut by 30% to 45%.

The NGEN system provides an opportunity to have a higher level of integration between the pharmacy and front end than was previously possible, Krause said.

Since the PC6's communicate only with IBM computers at the central office, and the previous pharmacy terminals communicated with the office's DEC mainframes, there has been no chance for integration of POS with the current pharmacy system.

But the NGEN system could change that, since it will communicate to both mainframes.

"Integration of pharmacy and POS certainly seems attractive, and we are evaluating its potential with the intent of testing later this year," said Krause.

Krause is a seven-year Thrift associate, who formerly was an MIS director with the Gold Circle discount store chain, the Lane Bryant clothing chain, and Thrift's Treasury store division.

Bill's adds 25th drug store; starts installing Rx computers

LAFAYETTE, Calif. — Bill's Drugs is working hard to keep pace with the large chain stores crowding its Northern California market by opening three new stores this year.

Two stores—one in Santa Rosa and another in Dixon—have opened this summer, and a third replacement store will open in Willows in October, according to Bill Eames, founder, ceo and chairman of the 25-store chain. All three sites are newly built, a departure from the days when Bill's acquired many of its stores from Pay 'n Save.

The relationship with Pay 'n Save, however, has not completely ended. Last December, former Pay 'n Save Vice Chairman Cal Hendricks joined Bill's, becoming a one-third owner, president, chief administrative officer and chief financial officer.

It is part of Hendricks' job to oversee Bill's real estate department. According to Eames, Hendricks "strengthens our management so we can grow more."

Substitution stores

Although the company's actual store count has not changed much in recent years, Eames said the company has been opening a lot of substitution stores, which often replace one or more smaller locations.

Eames said the opening of three locations this year was almost too much, since two of the stores opened within weeks of each other. Future plans call for the opening of two to three stores a year, and for now Eames said the company will stick to operating in the Northern California region.

Since Bill's typically competes against large chains like Longs, Pay Less, Walgreens and Thrifty, Eames said he tries to give his stores "a little bit more service and personality."

Eames said Bill's also tries to combat the bigger chains "by merchandising around their weak spots," which he declined to name.

Eames said that as the executive in charge of merchandising and store operations he is "always trying to improve our customer service." Bill's also works at "keeping stores looking like drug stores."

Bill's also emphasizes cosmetic sales in its serviced departments. Eames said cosmetic sales are flat at the moment, and the department is one he'll be studying more through market research and experimentation.

Although the company is not yet ready for a computerized point-of-sale system, Eames said, Bill's is starting to install pharmacy computers. Within six months, he said, all stores should be on line and coordinated through the company's central office in Lafayette.

Eames said the system will handle billing—including third party.

Correction

Two headlines written for a Sept. 14 article on the Pennsylvania PACE program on page 59 and continued on 68 create the impression that the PACE program is being criticized. Actually, it is PACE which is criticizing the state formulary committee for costly delays in approving generic drugs.

NACDS conference set for Oct. 11-14

BOCA RATON, Fla.—Financial management methods will be the focus of specialized sessions during this year's NACDS Administrative/Operations Conference, scheduled for Oct. 11-14 at the Boca Raton Hotel and Club here.

Monday, Oct. 12, sessions will include a presentation by Michael Crooch of Arthur Andersen & Co. on the latest financial reporting requirements from agencies such as the Financial Accounting Standards Board and Securities and Exchange Commission and their impact on the chain drug industry. Also on Monday, James Govatos of Mercer-Meidinger-Hansen will offer an analysis of pension plans and review management methods used to monitor and assess the performance of investments in pension/profit-sharing funds.

On Tuesday, Tom Apker of PCS will lead a session on "Third-party Technology," in which he will discuss the technological and information systems available for managing third-party accounting and claims verification, billing concepts and new procedures available to pharmacists to validate claims.

For further information about the Ad/Op Conference, contact Jim Whitman at NACDS.

TRENDS

Store Formats

Mast prepares first deep discount store to give shoppers 'best of both worlds'

HENDERSON, N.C. — Mast Drug Co., a 13-store chain concentrated mostly in east-central North Carolina, hopes to give shoppers in the Lumberton area "the best of both worlds" when it opens its first deep discount store there early next year, said J. Larry Trull, Mast president.

Trull told *Drug Store News* the 15,000-square-foot store Mast is leasing and remodelling in a Lumberton strip center "will be a hybrid—a step between the traditional 8,000-square-foot drug store and the 25,000- to 30,000-square-foot deep discounter."

The new store will use lighting and color to create an "upbeat, modern flavor as opposed to a warehouse-type operation," said Trull, who added the mix would be "typical deep discount."

The deep discount price approach isn't foreign to Mast: "We have a couple of small stores that are virtually pricing in that way," but without the inventory level to match a true deep discounter, Trull said.

Educating customers

But the concept will be new to Lumberton shoppers, as the still unnamed Mast store will be the first deep discounter in the market. "We have to tell customers what a deep discounter is all about," said Trull, who said Mast plans to promote the opening with print and radio ads (there's no television station in the area) to describe the concept. Trull estimates there are about 75,000 people in the new store's drawing radius.

"There's not enough demand for a huge store. We're trying to create the deep discount concept in less space with a volume that the population base will support. We don't have the capacity to compete with a Phar-Mor or Drug Emporium on their own turf; we're adapting to carve out our own niche in the marketplace."

The Lumberton location, in a strip center anchored by Sears and discounter Roses, is adjacent to a major mall and near a hospital and doctors' clinic, which Trull expects will give the store's pharmacy operation an advantage. His goal is for pharmacy, which will have a drive-up window, to account for 20 percent of total store sales in the first year.

Buying on deal

The new store's manager/-operator will be responsible for most buying, which will primarily be done on deal, Trull said. Although the chain has a small warehouse facility at its headquarters, about 85 percent of its merchandise comes through N.C. Mutual Drug, a warehouse cooperative located in Durham.

Mast's main competitors in the area include Eckerd, Revco, an Ames discount department store with pharmacy and several independents. Lumberton, located in a farming area, and Fayetteville, which lies about 35 miles to the north, are the primary shopping areas in the region.

Mast chose the Lumberton site "because it was the right physical facility in the right cost parameters," Trull said. But he said future growth plans will be more specifically targeted to markets suited to the chain's two main thrusts: additional deep discount stores and smaller, apothecary-type units.

Mast's stores, which range from 2,000 to 8,000 square feet, are mainly in the east-central part of the state, with one store in Emporia, Va. Its Roanoke Rapids store is "very price-aggressive," Trull said. "It's in the same pricing ballgame as the deep discounters, but not in size or method of operation."

Bartell experiments with large format as part of four-store expansion in 1987

SEATTLE—Bartell Drug recently opened its 31st store here, completing the company's 1987 four-store expansion plan, which the chain expects will generate a 20 percent increase in annual sales.

The first of the four stores opened this summer represents the largest in the Bartell chain at 18,000 square feet. The remaining three stores come in at Bartell's norm of 10,000 square feet. Bartell's new stores—and existing stores—are all in the greater Seattle area.

Won't be a precedent

Bartell Drug President George H. Bartell, Jr. said the 1987 expansion is aggressive, and he said plans for 1988 "will, to a certain extent, depend on how well we did this year." The opening of the large University Village store will not be a precedent for the chain, as Bartell said the chain will primarily stick to the smaller store size.

Once the four new stores are up to speed, Bartell said, "I think perhaps it's logical" to estimate that the new stores could boost company sales by 20 percent. Although the privately-owned and family-run company does not divulge income figures, Bartell did acknowledge that the company's most recent year-end sales exceeded $50 million.

Since the University Village store exceeds the company's norm of 10,000 square feet, Bartell said the 97-year-old chain had to adapt its merchandise mix in order to fill out the store. While some categories—camera/photo and sundries—were expanded, Bartell said the chain also had to bring in new merchandise, including fishing gear and a movie rental department.

The store size and mix is a "one of a kind for us," noted Bartell. However, some of the new products may find their way into the smaller stores on a lesser scale.

Although the University Village format follows a typical drug store layout, Bartell has incorporated a unique design which differentiates the store from the competition. In both the cosmetics and electronics departments—each located in opposite front corners of the store—fluorescent signage and track lighting is used on a dropped gridwork to highlight each department.

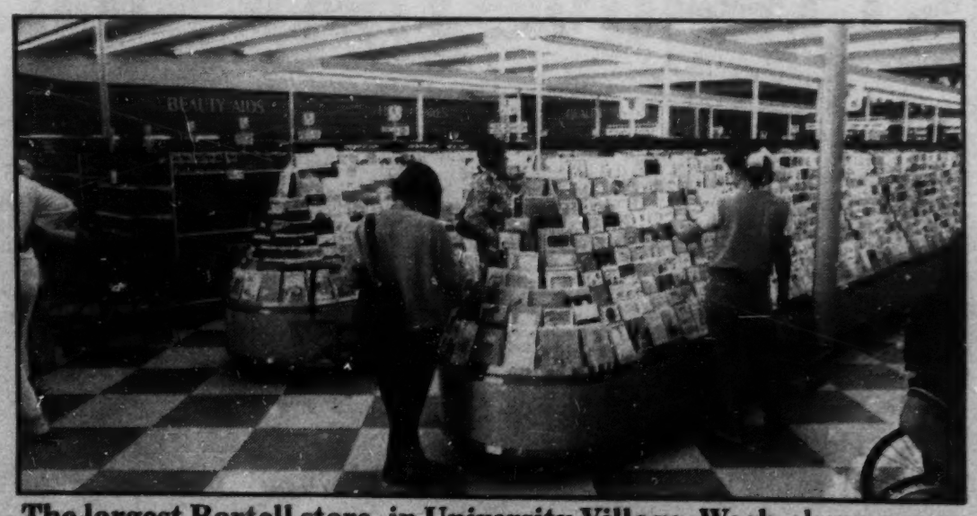
"We felt something of that type was important," Bartell explained of the special signage and lighting.

This added feature allows the store to project a progressive and upscale look, which blends with the community it serves.

Tailoring its stores to fit individual areas is something Bartell said the chain has always tried to do. And the task is not a difficult one, he noted, since the company is well-versed with its market.

Bartell said all funds for company expansion are internally generated, and the company borrows very little, since, as the president noted, "we tend to be relatively conservative financially."

Bartell added that the company is currently content to stay in the Seattle area, and will only venture beyond the city if the company cannot find enough suitable store sites.



The largest Bartell store, in University Village, Wash., houses new fishing gear and movie rental departments and expanded photo and sundries.

Rx in deep discounters

Deep Discounter	Total Stores	Rx Depts.	% Rx Depts.
Drug Emporium *Worthington, Ohio*	127	127	100%
Phar-mor *Youngstown, Ohio*	47	46	98
F & M *Warren, Mich.*	37	18	49
Drug Palace *(Rite Aid) Shiremanstown, Pa.*	27	17	63
Howie's/Carnevale *(Shoppers Drug Mart) Toronto*	16	16	100
Rock Bottom *Port Washington, N.Y.*	23	14	61
Dot *(Wal-Mart) Bentonville, Ark.*	11	11	100
A.L. Price *(Perry Drug) Detroit*	10	10	100
Pathmark Super Drug *(Supermarkets General) Woodbridge, N.J.*	9	9	100
Bud's *(Peoples) Alexandria, Va.*	9	8	88
Drug World *(SupeRx) Cincinnati*	8	8	100
Joel and Jerry's *Tampa, Fla.*	6	6	100
Drugs for Less *Birmingham, Ala.*	6	6	100
Drug Castle *(Brown) Springfield, Ohio*	5	5	100
Marc's *Cleveland*	10	4	40
Maxidrug *Massachusetts*	2	2	100
Heartland SGC *Massachusetts*	2	2	100
Jax's *(Fisher Foods) Cleveland*	2	2	100
Value Giant *(Pay Less NW) Wilsonville, Ore.*	2	2	100
Cost Cutters *(Community Distributors) Somerville, N.J.*	9	1	11
Ike's *(Malone & Hyde) Memphis*	3	1	33
Cecille's *Detroit*	7	0	—
Total Plus *(Dart) Landover, Md.*	5	0	—
Freddy's *(Melville Corp.) Woonsocket, R.I.*	11	N.A.	—

Source: Drug Store News *Research*

TRENDS

Store Formats

Different store formats make good neighbors

By Al Heller

DETROIT—High fences make good neighbors. Vastly different store formats within a market can do the same—or at least assure that competing merchants can coexist.

In the greater Detroit market, whose suburbs house some of the nation's wealthiest zip codes and the urban area some of the poorest, conventional drug chain and deep discount operators are able to rub shoulders and smile. Each can grow without cannibalizing the other because in part they appeal to different market segments.

Shared opinion

That is the shared opinion of F&M president Frank Newman and Arbor chairman Eugene Applebaum and executive vp Max Ernst, expressed to *Drug Store News* during a recent visit here.

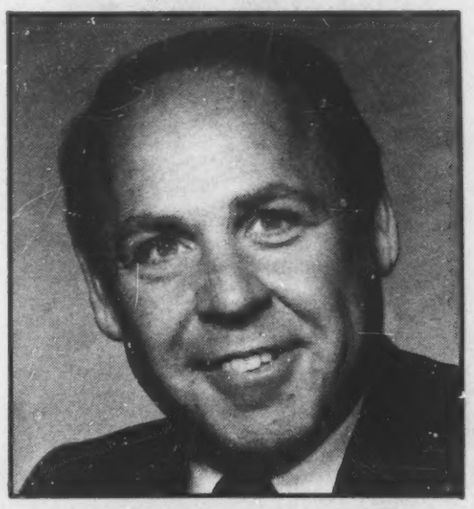
F&M has 11 stores here now and eyes 16 eventually. Arbor has 70 stores here, eyes 10 more this year and close to 150 in the state by 1992. Perry has about 130 conventional and A.L. Price stores in Michigan, concentrated largely within greater Detroit. There are also 56 K marts in its hometown, Meijers Thrifty Acres, 34 Borman's Farmer Jack stores which have pharmacies, and PACE and Warehouse Club membership operations, plus Target to enter soon.

Working with all

Ernst, calling Michigan the original hotbed of retail independence, says "we've learned to work with all" competing classes of trade.

Applebaum added, with hometown pride, "the saying about if you make it in New York you can make it anywhere, should be if you make it in Michigan you can make it anywhere."

Still, an improved business climate here provides fertile ground for retail growth here, he added. A better economy here enabled Arbor to pull back from its venture in the Carolinas, which was a hedge



Arbor's Applebaum

against a poor environment here a few years ago.

Newman noted his chain's focus on educated, well-to-do families who understand value and can spend, say, $100 to stock up. He said: "We can coexist with any retailer except our own clones."

As an example, he noted that PACE opened against one of his strongest stores near here. He was concerned about health and beauty aids, stationery and candy performance, despite the warehouse club's limited sku's. "But it has had no discernible effect on our business. It hasn't posed a real threat," Newman said.

He felt that is because "within their set of economies, they are looking for $40 and $50 transactions. They aren't focusing on H&BA, which is filled with $1 and $2 items."

"You wouldn't know the warehouse clubs were in town—judging by our results," Newman added.

Pharmacy not important

As far as the trend among some warehouse clubs to add pharmacy, Newman felt it wouldn't ever be an important part of their business. The clubs are in low-rent industrial sites, not near doctors and hospitals. "Since pharmacy is 60% acute care, people won't go 20 miles out of their way and pass 50 drug stores to save money. Also, everyone is competitive on maintenance drugs, so no one makes money on that."

The key to coexisting is knowing who you are and what you are, insisted Arbor's Ernst. "There are too many copycats in our industry. They are under pressure from Wall Street and others to produce numbers and have what other chains have. But you have to experiment, don't jump willy nilly," he added. Ernst cited optical centers as a venture he "knew would be bad. We'd never go near it. But others felt pressured to."

Commenting on F&M, Arbor's Applebaum said: "These guys understand they can coexist because they're very focused."

Combination stores increase pharmacy presence in 1987

Combo	Total stores	Rx. depts.	% Rx depts.	Combo	Total stores	Rx depts.	% Rx depts.
Kroger *Cincinnati*	1,060	429	40%	**Randall's** *Houston*	37	33	89.0%
A&P Supermarkets *Montvale, N.J.*	1,200	400	33	**Grand Union** *Elmwood Park, N.J.*	361	30	8.0
Safeway *Oakland, Calif.*	1,427	372	26	**Wegman's** *Rochester*	38	30	79.0
Big B *Birmingham, Ala.*	180	175	97	**Consumers Markets** *Springfield, Mo.*	36	22	61.0
Albertson's *Boise, Idaho*	456	169	37	**Smitty's Super Valu** *Phoenix*	22	18	82.0
SGC Foodstores *Woodbridge, N.J.*	201	130	65	**Stop 'n Shop** *Quincy, Mass.*	18	18	100.0
Lucky Stores *Dublin, Calif.*	584	95	16	**Bruno** *Birmingham, Ala.*	15	15	100.0
Giant Food *Landover, Md.*	144	89	62	**Erickson's Foods** *Hudson, Wis.*	15	15	100.0
Smith's Management *Salt Lake City*	89	80	90	**Carr's Quality Centers** *Anchorage, Alaska*	13	13	100.0
Shop Rite *(Wakefern Foods) Elizabeth, N.J.*	176	76	43	**Dahl's Food Markets** *Des Moines*	13	12	92.0
H. E. Butt *Corpus Christi, Tex.*	148	71	48	**Foodway** *Fayette, Ala.*	26	7	27.0
Furr's *Lubbock, Tex.*	105	50	48	**Sack 'n Save** *(Minyard's) Coppel, Tex.*	11	7	64.0
Raley's *Sacramento, Calif.*	48	48	100	**Dierberg** *Chesterfield, Mo.*	10	5	50.0
Vons *El Monte, Calif.*	180	46	26	**Randall's** *Mitchell, S.D.*	29	4	14.0
Giant/Farm Fresh *Norfolk, Va.*	67	44	66	**Sentry Markets** *Waukesha, Wis.*	91	3	3.0
Tom Thumb/Page *(Cullum) Dallas*	80	38	48	**Smithy's** *Springfield, Mo.*	3	2	67.0
Borman's Farmer Jack *Detroit*	83	34	41	**Roundy's** *Pewaukee, Wis.*	200	1	0.5

Source: Drug Store News Research